BFL CANADA
Realty Insurance Services
Market Insights - 2024

This Winter 2024 Market Insights provides an update on an evolving insurance environment. As the year unfolds and new challenges or opportunities present themselves, we look forward to partnering with you and furthering discussions to create comprehensive risk solutions that enable you to navigate a dynamic marketplace.

Key Insurance Market Trends

As we move into 2024, we feel optimism and a return to increased insurer competition into the real estate market. Despite concerns around the increased impact of catastrophic events, insurers and reinsurers are setting their sights on sustainable long-term growth with a focus on improving performance through careful risk selection and capacity placements.

For policyholders, this will highlight the importance of providing quality risk information, the completion of risk control recommendations, and accurate property valuations to offset inflationary increases.

2023 INDUSTRY REPORT HIGHLIGHTS

- Global insured losses from natural catastrophic events in 2023 surpassed US $100 bn for a fourth consecutive year.
- 2023 saw many diverse global events—major earthquakes in Turkey, Syria, and Afghanistan; significant floods in Canada, the United States, China, India, Australia, Italy, and Greece; a super typhoon in Asia, wildfires in Hawaii and Canada; and drought in South America.
- Natural catastrophe and severe weather events in Canada caused over $3.1 bn in insured damage in 2023
- The rate of inflation in Canada moved up slightly to 3.4% in December, and the Bank of Canada projects it will hover around 3.5% until mid-2024.

Canadian Wildfire Season Summary

Due to climate change, the number of wildfires has been increasing, and wildfire season has been considerably longer, as well as, more devastating over the past years. In 2023, 6,551 wildfires across Canada ravaged over 17 million acres of land. This is nine times the 10-year average of area affected.

Wildfires have an economic impact on the communities and businesses they touch. Like the businesses affected by the fires, insurers are not immune to this as they pay large sums to indemnify to those affected. Because insurance companies have seen their profits eroded, when assessing risk and determining rates, the quantity and severity of wildfires are two main factors insurers take into consideration.

HAVING THE RIGHT INSURANCE, CRITICAL TO WILDFIRE RECOVERY

The most expensive wildfire event in Canadian history was the Fort McMurray fire of 2016, which cost insurers over $5.96 billion in losses and expenses. Many people living in this community saw their livelihoods upended businesses affected, homes and buildings damaged.

The key to recovery for many of our customers was that they had a sound and comprehensive insurance policy in place which literally saved the day. As a result, we were able to work with contractors and a range of trades to source materials quickly on budget to rebuild their homes and businesses. By having the right coverage, home and business owners didn't have to make up the difference in funds, therefore, were able to return to their pre-fire lives as quickly—and with as little stress—as possible.

The focus is now on B.C.'s Okanagan region, and the impact wildfires have had on those communities. In B.C., the cost to fight forest fires has exploded to nearly $1 billion for 2023, which according to the province's Finance Minister Katrine Conroy "is $762 million higher than budget." According to the Insurance Bureau, the Bush Creek East and McDougall Creek wildfires will collectively total $720 million dollars in damages. This would be the most expensive insured event ever recorded in B.C. and the tenth costliest in Canada's history.

While the direct impact and damage of wildfires is obvious, there are also several other cumulative effects to consider. For example, while a property may not be in the direct path of a fire, many insurers will not provide a quote for insurance if it is located within the determined range of a fire. This can impact the buyer's ability to get competitive quotes or change providers.

Insurance Rate Outlook

- Underwriters will continue to look to insure to proper and more accurate values. The focus will be on demonstrating to their reinsurers that their portfolio data is robust, accurate and represents inflation adjusted replacement cost valuation when deploying capacity. Quality of risk information is becoming more important. If a client has already implemented risk mitigation tools, those will need to be highlighted.

- Close monitoring of catastrophe risks such as earthquake, flood, and windstorms in high hazard zones, along with secondary perils such as severe convective storms, wildfires and freezing, that are now incorporated into a new broader peril definition will also be taken into consideration by underwriters when making decisions. Maximum deductibles on catastrophe risks are being closely examined, which can result in more retained risk for the insured.

- Emerging technology and innovation will continue to take shape in 2024. This will further allow the industry to collect and interpret data on a range of topics that will permit better, more informed decision-making and predictions of risk. This could help transform the way clients purchase insurance and how underwriters determine and calculate risk.

LOOKING AHEAD — OUR RECOMMENDATIONS FOR CLIENTS

Market capacity has stabilized, driven by positive underwriting results up to this point. However underwriters will continue to look in closely on risk profiles in 2024. As the market continues to change and new challenges emerge, it is important for clients to start the renewal process early and provide high quality submissions with complete information, accurate valuations, and risk control considerations.

With inflationary increases and emerging perils, it is important to make sure you have the right coverage for your risk exposure. As brokers, we can help determine your needs and utilize our expertise to leverage your submission to insurers.

REGIONAL LEGAL UPDATES

THERE ARE A NUMBER OF DEVELOPMENTS IN ALBERTA, B.C. AND QUEBEC THAT WILL HAVE AN IMPACT ON THE INSURANCE INDUSTRY.

BRITISH COLUMBIA

Strata Corporation Governance

Effective November 1, 2023, pursuant to Order-in-Council 0032, the minimum annual contributions to the contingency reserve fund ("CRF") in British Columbia will change for strata corporations and sections, in part as follows:

- For the fiscal year following the first annual general meeting ("AGM")—the very first AGM ever held—the amount of the annual contribution to the CRF must be at least 10% of the total amount budgeted for the contribution to the operating fund for the 12-month period covered by that budget; and,
- For a fiscal year, other than the fiscal year following the first annual general meeting, the amount of the annual contribution to the CRF must be (i) determined after consideration of the most recent depreciation report and (ii) at least 10% of the total amount budgeted for the contribution to the operating fund for the current fiscal year.

Please note that changes detailed in Order-in-Council 0032 in relation to owner developers and to the establishment of a contingency reserve fund are not considered here.

ALBERTA

Real Estate Council of Alberta Condominium Manager Licensing

Effective October 1, 2023, Condominium Managers in the province of Alberta must be licensed with the Real Estate Council of Alberta (RECA). Condominium management involves acting on behalf of a condominium corporation, performing tasks such as collecting funds, enforcing bylaws, entering contracts, and supervising employees or contractors.

It is important to distinguish condominium management from property management, as they are separate activities and industries. If a company wishes to provide both services, they must obtain separate brokerage licenses — a condominium management brokerage license for condominium management services and a real estate brokerage license for property management services. Although two licenses are required, a single corporation can operate both brokerages. For more detailed information on Condominium Manager Licensing, please visit the RECA website www.reca.ca.

QUÉBEC

Amendements to the Charter of the French Language

On June 1, 2023, several important amendments to Bill 96's Section 55 of the Charter of the French Language (the "Charter") regarding contracts predetermined by one party, or "contracts of adhesion," came into effect. Many insurance policies, but not all, qualify as contracts of adhesion because they are (i) not negotiated and (ii) predetermined by one party. In general, an insurance policy and its endorsements will be considered a contract of adhesion because one party (i.e., the insurer) imposes the essential terms, conditions, and stipulations upon the other adhering party (i.e., the insured).

Subject to a number of exceptions not considered here, the reform of Section 55 of the Charter requires that qualifying insurance policies and related documents must be "drawn up in French" and that the parties involved may only be bound by a version in a language other than French if the adhering party (i.e., the insured) articulates this as their express wish, after first receiving the French version(s).